

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Hurley Medical Center	County Genesee
Fiscal Year End June 30, 2007	Opinion Date October 17, 2007	Date Audit Report Submitted to State November 1, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Plante & Moran, PLLC		Telephone Number (810) 767-5350		
Street Address 111 E. Court Street, Suite 1A		City Flint	State MI	Zip 48502
Authorizing CPA Signature 		Printed Name Robert Dery, CPA		License Number 1101010636

Hurley Medical Center

**Financial Report
with Additional Information
June 30, 2007**

Hurley Medical Center

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Independent Auditor's Report

To the Board of Hospital Managers
Hurley Medical Center

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Hurley Medical Center (a component unit of the City of Flint, Michigan) as of June 30, 2007 and 2006, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of Hurley Medical Center at June 30, 2007 and 2006 and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The retirement system analysis of funding progress as identified in the table of contents is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

October 17, 2007

Hurley Medical Center

Balance Sheet

	June 30, 2007		June 30, 2006	
	Primary Government Hurley Medical Center	Component Unit Hurley Health Services	Primary Government Hurley Medical Center	Component Unit Hurley Health Services
Assets				
Current Assets				
Cash and cash equivalents	\$ 9,490,130	\$ 3,295,650	\$ 20,112,540	\$ 2,553,368
Patient accounts receivable - Net (Note 4)	56,953,927	210,460	58,975,912	315,601
Other receivables	7,935,332	437,858	7,659,076	785,302
Assets limited as to use (Note 5)	3,931,428	229,724	3,510,414	334,158
Prepaid expenses and other	2,254,768	1,051,899	2,348,436	1,289,148
Inventory	3,634,956	19,831	3,290,619	53,214
Total current assets	84,200,541	5,245,422	95,896,997	5,330,791
Assets Limited as to Use (Note 5)				
By the board	75,178,893	229,724	59,754,231	334,158
Under bond indenture agreement - Held by trustee	11,773,195	-	12,457,972	-
Restricted	397,731	-	390,113	-
Total assets limited as to use	87,349,819	229,724	72,602,316	334,158
Less assets limited as to use that are required for current liabilities	(3,931,428)	(229,724)	(3,510,414)	(334,158)
Total noncurrent assets whose use is limited	83,418,391	-	69,091,902	-
Capital Assets - Net (Note 21)	59,931,197	977,499	60,762,071	1,348,831
Other Assets				
Investment in joint ventures (Note 19)	7,993,436	4,500	6,296,628	1,153,809
Deferred reimbursement and defeasance loss	786,708	-	894,053	-
Bond issuance costs, net	563,882	-	630,927	-
Other	-	150,000	-	150,000
Total assets	<u>\$ 236,894,155</u>	<u>\$ 6,377,421</u>	<u>\$ 233,572,578</u>	<u>\$ 7,983,431</u>

Hurley Medical Center

Balance Sheet (Continued)

	June 30, 2007		June 30, 2006	
	Primary Government Hurley Medical Center	Component Unit Hurley Health Services	Primary Government Hurley Medical Center	Component Unit Hurley Health Services
Liabilities and Fund Net Assets				
Current Liabilities				
Current portion of long-term debt and lease obligations (Notes 6 and 7)	\$ 4,100,878	\$ -	\$ 3,797,912	\$ -
Accounts payable and taxes withheld	15,049,630	113,884	15,430,844	206,119
Accrued expenses	33,796,020	1,134,756	32,582,586	1,256,749
Total current liabilities	52,946,528	1,248,640	51,811,342	1,462,868
Lease Obligations - Net of current portion (Note 7)	75,260	-	1,379,634	-
Long-term Debt - Net of current portion (Note 6)	61,694,604	-	64,277,937	-
Accrued Expenses (Note 18)	47,371,405	-	40,952,281	-
Total liabilities	162,087,797	1,248,640	158,421,194	1,462,868
Fund Net Assets				
Invested in capital assets - Net of related debt	9,920,059	977,499	6,954,524	1,348,831
Donor restricted for specific operating activities	3,985,169	-	3,523,037	-
Unrestricted	60,901,130	4,151,282	64,673,823	5,171,732
Total fund net assets	74,806,358	5,128,781	75,151,384	6,520,563
Total liabilities and fund net assets	<u>\$ 236,894,155</u>	<u>\$ 6,377,421</u>	<u>\$ 233,572,578</u>	<u>\$ 7,983,431</u>

Hurley Medical Center

Statement of Revenues, Expenses, and Changes in Fund Net Assets

	Year Ended			
	June 30, 2007		June 30, 2006	
	Primary Government Hurley Medical Center	Component Unit Hurley Health Services	Primary Government Hurley Medical Center	Component Unit Hurley Health Services
Operating Revenues				
Net patient service revenue	\$ 286,302,771	\$ 2,862,052	\$ 268,543,435	\$ 4,335,585
Other operating revenues	27,486,577	18,893,352	27,644,161	18,004,860
Total operating revenues	313,789,348	21,755,404	296,187,596	22,340,445
Operating Expenses				
Salaries and wages	132,005,181	14,373,202	126,524,408	14,002,158
Employee benefits and payroll taxes	51,198,608	2,709,575	50,196,050	2,712,468
Operating supplies and expenses	39,012,934	-	37,738,735	-
Professional services and consultant fees	35,114,023	132,848	32,298,913	84,854
Purchased services and other	43,918,492	4,851,770	48,027,466	5,374,785
Depreciation and amortization	11,079,243	118,877	10,347,386	223,991
Total operating expenses	312,328,481	22,186,272	305,132,958	22,398,256
Net Operating Income (Loss)	1,460,867	(430,868)	(8,945,362)	(57,811)
Nonoperating Revenues (Expenses)				
Investment income and unrestricted donations	4,188,467	179,394	121,581	58,367
Management fees to PHO and joint venture expense	(2,124,199)	(1,140,308)	(247,034)	(316,169)
Interest expense	(4,491,718)	-	(4,503,057)	-
Total nonoperating expenses	(2,427,450)	(960,914)	(4,628,510)	(257,802)
Excess of Expenses Over Revenue Before Other Activity and Restricted Fund Activity and Transfer of Funds	(966,583)	(1,391,782)	(13,573,872)	(315,613)
Other - Assets released from restrictions for the purchase of capital assets	159,430	-	229,996	-
Excess of Expenses Over Revenues Before Restricted Fund Activity and Transfer of Funds	(807,153)	(1,391,782)	(13,343,876)	(315,613)
Capital Contributed Restricted Fund Activity and Transfer of Funds				
Restricted gifts and bequests	1,817,866	-	1,798,029	-
Income and investments	16,189	-	81,684	-
Transfer of funds to General Fund - Capital asset additions	(159,430)	-	(229,996)	-
Transfer of funds to General Fund - Other operating expenses	(1,212,498)	-	(1,256,340)	-
Decrease in Fund Net Assets	(345,026)	(1,391,782)	(12,950,499)	(315,613)
Fund Net Assets - Beginning of year	75,151,384	6,520,563	88,101,883	6,836,176
Fund Net Assets - End of year	\$ 74,806,358	\$ 5,128,781	\$ 75,151,384	\$ 6,520,563

Hurley Medical Center

Statement of Cash Flows

	Year Ended			
	June 30, 2007		June 30, 2006	
	Primary Government Hurley Medical Center	Component Unit Hurley Health Services	Primary Government Hurley Medical Center	Component Unit Hurley Health Services
Cash Flow from Operating Activities				
Cash received from patients and third-party payors	\$ 314,321,170	\$ 22,207,989	\$ 327,965,134	\$ 22,132,771
Cash payments to suppliers for services and goods	(162,258,798)	(7,515,909)	(174,238,049)	(8,428,802)
Cash payments to employees for services	(132,005,181)	(14,373,202)	(126,524,408)	(14,002,158)
Net cash provided by (used in) operating activities	20,057,191	318,878	27,202,677	(298,189)
Cash Flows from Investing Activities				
Capital contributed to joint ventures	(2,475,434)	-	-	-
Distributions from joint ventures	900,000	-	2,100,000	-
Purchases of assets whose use is limited	(562,452,083)	113,434	(70,836,722)	(8,746)
Sale of assets whose use is limited	549,609,380	-	59,422,478	-
Payments on notes receivable	-	99,127	-	304,613
Interest on investments	3,024,231	179,394	2,487,849	126,575
Net cash provided by (used in) investing activities	(11,393,906)	391,955	(6,826,395)	422,442
Cash Flows from Noncapital Financing Activities				
Net proceeds from contributions restricted for specific purposes	1,817,866	-	1,798,029	-
Management fees paid	(2,245,573)	-	(3,277,393)	-
Net cash used in noncapital financing activities	(427,707)	-	(1,479,364)	-
Cash Flows from Capital and Related Financing Activities				
Principal payment on long-term debt and capital leases	(3,796,408)	-	(3,627,256)	-
Interest paid on long-term debt	(4,488,246)	-	(4,373,849)	-
Purchase of capital assets	(10,963,626)	(4,987)	(12,924,080)	(31,747)
Proceeds from sale of assets	390,292	36,436	677,070	7,180
Net cash provided by (used in) capital and related financing activities	(18,857,988)	31,449	(20,248,115)	(24,567)
Net Increase (Decrease) in Cash and Cash Equivalents	(10,622,410)	742,282	(1,351,197)	99,686
Cash and Cash Equivalents - Beginning of year	<u>20,112,540</u>	<u>2,553,368</u>	<u>21,463,737</u>	<u>2,453,682</u>
Cash and Cash Equivalents - End of year	<u>\$ 9,490,130</u>	<u>\$ 3,295,650</u>	<u>\$ 20,112,540</u>	<u>\$ 2,553,368</u>

Hurley Medical Center

Statement of Cash Flows (Continued)

	Year Ended			
	June 30, 2007		June 30, 2006	
	Primary	Component Unit	Primary	Component Unit
	Government Hurley Medical Center	Hurley Health Services	Government Hurley Medical Center	Hurley Health Services
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 1,460,867	\$ (430,868)	\$ (8,945,362)	\$ (57,811)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	11,079,243	118,877	10,347,386	223,991
Provision for bad debt	30,470,988	97,074	25,783,919	-
Amortization of bond discounts, issuance costs, other deferred charges, and deferred defeasance gain	314,754	-	442,625	-
(Gain) loss on investment in assets	(326,698)	221,007	(279,741)	-
Provision for income taxes	-	-	-	(60,606)
Contribution released from restrictions	(1,212,498)	-	(1,256,340)	-
Changes in operating assets and liabilities:				
Receivables	(28,725,259)	355,511	(18,364,659)	(207,674)
Inventories	(344,337)	33,383	255,018	(13,133)
Prepaid expenses and other	93,668	138,122	(101,291)	(230,729)
Accounts payable and taxes withheld	(381,214)	(92,235)	767,627	70,748
Accrued expenses	7,629,086	(121,993)	18,722,796	(22,975)
Interest receivable on assets whose use is limited	(1,409)	-	(169,301)	-
Net cash provided by (used in) operating activities	<u>\$ 20,057,191</u>	<u>\$ 318,878</u>	<u>\$ 27,202,677</u>	<u>\$ (298,189)</u>
Supplemental Cash Flow Information				
Increase in investment in joint venture	\$ 121,374	\$ -	\$ 3,030,359	\$ -
Unrealized gain (loss)	1,180,425	-	(2,284,584)	-

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note I - Nature of Business and Significant Accounting Policies

Organization and Reporting Entity - Hurley Medical Center (the "Medical Center") is a component unit of the City of Flint, Michigan. The Medical Center provides inpatient, outpatient, and emergency care services in Genesee and surrounding counties. As an instrumentality of a political subdivision of the State of Michigan, as described in Section 115 of the Internal Revenue Code, the Medical Center is exempt from federal income taxes.

The City of Flint Hospital Building Authority (the "Authority") is a blended component unit of the Medical Center and the City of Flint. The Authority only serves the Medical Center by facilitating the issuance of debt for certain capital improvements and equipment via a lease contract. In accordance with generally accepted accounting principles, the lease transactions between the Medical Center's and the Authority have been eliminated and all debt and related assets have been recorded in the Medical Center's financial statements.

Hurley Health Services (HHS), a municipal support organization, is a wholly owned subsidiary of the Medical Center and is reported as a component unit. HHS, on a consolidated basis, is comprised of two nonprofit entities (HHS and The Hurley Clinics (THC)) and one "for profit" corporation (Hurley Practice Management Services (HPMS)).

Proprietary Fund Accounting - The Medical Center utilizes the proprietary fund method of accounting, whereby revenues and expenses are recognized on the accrual basis. The proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards board (GASB) pronouncements, in which case GASB prevails.

Basis of Presentation - The Medical Center follows GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, in the presentation of its financial statements. Under GASB 34, the Medical Center is classified as a special purpose government and is required to present statements required for Enterprise Funds.

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payors.

Note I - Nature of Business and Significant Accounting Policies (Continued)

Assets Limited as to Use - Assets limited as to use include:

- Assets set aside by the board of managers for identified purposes, over which the board retains control and may, at its discretion, subsequently use for other purposes
- Proceeds of debt issues and funds of the Medical Center deposited with a trustee and limited to use in accordance with the requirements of a bond indenture
- Assets restricted by outside donors

Investments and Investment Income - The Medical Center accounts for its investments in accordance with GASB No. 31, *Accounting for Certain Investments and for External Investment Pools*. All investments are valued at their fair values in the balance sheet except money market investments and interest earning investment contracts that have a remaining maturity of less than one year at the time of purchase. These investments are carried at amortized cost. Unrealized gains and losses are included in the statement of revenue, expenses, and changes in fund net assets as nonoperating revenues - investment income.

Investment income on proceeds of borrowings that are held by a trustee, to the extent not capitalized, and investment income on assets deposited in the self-insurance trust are reported as operating revenues - other revenue. Investment income from all other General Fund investments and investment income of endowment funds are reported as nonoperating revenue. Investment income and gains (losses) on investments of donor-restricted funds are added to (deducted from) the appropriate restricted fund balance.

The investments in joint ventures are recorded on the equity method of accounting.

Accounts Receivable - Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical loss rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Medical Center's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. The allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Inventories - Inventories, which consist of medical and office supplies and pharmaceutical products, are stated at cost, determined on a first-in, first-out basis or market.

Note I - Nature of Business and Significant Accounting Policies (Continued)

Bond Issuance Costs - Costs related to the issuance of bonds are deferred and amortized over the life of the bonds. Costs amortized during periods of construction are added to the cost of the related projects.

Deferred Defeasance Loss - The defeasance loss associated with defeased debt is capitalized and amortized over the life of the new debt.

Capital Assets - Capital assets are stated at cost and depreciated over the estimated useful lives of the related assets. Prior to 1997, the Medical Center utilized an accelerated method of depreciation for substantially all assets. In 1997, the Medical Center switched to straight-line depreciation for all new acquisitions.

Compensated Absences - The Medical Center's employees earn vacation days at varying rates depending on years of service and job classification. Employees may accumulate vacation days up to a specified maximum. The Medical Center's policy is to accrue such unpaid vacation days as they are earned. The estimated amount of vacation days payable is reported as a current liability.

Employees of the Medical Center generally are eligible for receiving a portion of unused sick leave benefits only upon retirement, death, or duty-related disability. The Medical Center's policy is to recognize these sick leave benefits at the time an employee becomes vested for retirement or duty-related disability, or in the case of death. The estimated amount of sick leave payable for employees meeting these requirements is reported as a noncurrent liability.

Certain employee groups, however, are eligible to receive a portion of unused sick leave benefits on an annual basis. The Medical Center's policy is to accrue such unpaid sick leave benefits as they are earned. The estimated amount of sick leave payable for employees eligible to receive a portion of unused sick leave benefits on an annual basis is reported as a current liability.

Classification of Fund Net Assets - Fund net assets of the Medical Center are classified in three components. Fund net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net assets are noncapital net assets that must be used for a particular purpose, as specified by grantors, or contributors external to the Medical Center. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Note I - Nature of Business and Significant Accounting Policies (Continued)

Net Patient Service Revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payors for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Approximately 75 percent and 74 percent of the Medical Center's revenues are based on participation in the Blue Cross/Blue Shield, Medicare, and Medicaid programs for the years 2007 and 2006, respectively.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Operating Revenues and Expenses - The Medical Center's statement of revenues, expenses, and changes in fund net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services - the Medical Center's principal activity. Nonexchange revenues, including contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Restricted Resources - When the Medical Center has both restricted and unrestricted resources available to finance a particular program, it is the Medical Center's policy to use restricted resources before unrestricted resources.

Estimated Self-insured Malpractice Costs - The provision for estimated self-insured medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The estimate for claims incurred but not reported is based on an actuarial determination.

Interest Expense - Interest expense is charged to operations as incurred, except that interest on funds borrowed for major construction projects is capitalized as a component of the cost of the related projects during the period that the borrowed funds are owed.

Income Taxes - The Medical Center and HHS are exempt from income taxes except for HHS's subsidiary, Hurley Practice Management Services. A provision for income taxes (at statutory rates) has been provided for in the financial statements related to this entity's transactions.

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Nonoperating Revenues and Expenses - The Medical Center categorizes joint ventures, investment income, and operations that the Medical Center does not directly oversee as nonoperating activities.

Charity Care - The Medical Center provides care without charge to patients who meet certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The eligibility criteria are based on levels of income.

Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Charity Care

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30:

	<u>2007</u>	<u>2006</u>
Charges foregone, based on established rates	<u>\$ 14,648,165</u>	<u>\$ 11,346,296</u>
Estimated costs and expenses incurred to provide charity care	<u>\$ 5,763,202</u>	<u>\$ 4,764,528</u>
Equivalent percentage of charity care patients to all patients served	<u>1.85%</u>	<u>1.56%</u>

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 3 - Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- **Medicare** - Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Most outpatient services are paid on an ambulatory payment classification system or fee schedule methodology. Inpatient nonacute services and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology subject to certain limitations.
- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Outpatient services rendered to Medicaid program beneficiaries are reimbursed based on a fee schedule methodology. Capital costs are paid on a cost reimbursement method.
- **Blue Cross/Blue Shield of Michigan** - Inpatient, acute-care services are reimbursed at prospectively determined rates per discharge. These rates are based on the Medicare patient classification system and on hospital-specific costs. Outpatient services are reimbursed on fee for service basis.
- **HMO/PPO** - Services rendered to HMO and PPO beneficiaries are paid at predetermined rates or at a percentage of hospital charges.

Cost report settlements result from the adjustment of interim payments to final reimbursement under the Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs and are subject to audit by fiscal intermediaries. During 2006 and 2007, there was no significant impact to the net patient service revenue due to settlement activity.

Note 4 - Patient Accounts Receivable

Patient accounts receivable at June 30, 2007 and 2006 and revenues for the years then ended include estimated amounts due from various third-party payors which are computed in accordance with their respective reimbursement formulas.

In addition, the Medical Center has established an estimated allowance for uncollectible accounts of approximately \$16,470,000 and \$15,650,000 at June 30, 2007 and 2006, respectively.

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 4 - Patient Accounts Receivable (Continued)

The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows:

	Percent	
	2007	2006
Medicare	15	12
Blue Cross/Blue Shield of Michigan	11	13
Medicaid	20	17
Other third-party payors and patients	54	58
Total	100	100

Note 5 - Assets Limited as to Use

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets. Assets limited as to use consist of the following at June 30:

	2007	2006
By board for funded depreciation and capital improvements:		
Cash and cash equivalents	\$ 3,786,325	\$ 3,238,098
U.S. government securities (cost was \$46,141,097 and \$41,189,675 for 2007 and 2006, respectively)	44,930,056	39,474,435
Accrued interest receivable	148,580	148,090
Total	48,864,961	42,860,623
By board for self-insurance:		
Cash and cash equivalents	7,756,217	1,549,762
U.S. government securities (cost was \$10,789,407 and \$10,992,969 for 2007 and 2006, respectively)	10,706,269	10,777,813
Mutual funds (cost was \$6,785,604 and \$4,044,831 for 2007 and 2006, respectively)	7,724,403	4,439,510
Accrued interest receivable	127,043	126,523
Total	26,313,932	16,893,608
Total board designated	\$ 75,178,893	\$ 59,754,231

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 5 - Assets Limited as to Use (Continued)

	2007	2006
Under bond indenture agreement - Held by trustee:		
Cash and cash equivalents	\$ 8,857,029	\$ 9,421,870
U.S. government securities (cost was \$2,736,110 and \$2,852,626 for 2007 and 2006, respectively)	2,810,000	2,926,430
Accrued interest receivable	106,166	109,672
Total	<u>\$ 11,773,195</u>	<u>\$ 12,457,972</u>
Restricted - Cash and cash equivalents	<u>\$ 397,731</u>	<u>\$ 390,113</u>

HHS assets limited as to use include a certificate of deposit used to secure the letter of credit disclosed in Note 6.

Note 6 - Lease Purchase Commitments and Long-term Debt

A summary of lease purchase commitments and long-term debt at June 30, 2007 and 2006 follows:

	2007	2006
Lease purchase contract, revenue refunding bonds, Series 1995A, with a final payment of \$1,130,000 in 2007, plus interest at 5.25 percent to 7.00 percent, paid in full in 2007	\$ -	\$ 1,130,000
Lease purchase contract, revenue refunding bonds, Series 1998A, with annual payments ranging from \$675,000 in 2008 to \$1,315,000 in 2021, plus interest at 4 percent to 5.375 percent through 2021	13,445,000	14,090,000
Lease purchase contract, revenue refunding bonds Series 1998B, with annual payments ranging from \$440,000 in 2008 to \$1,320,000 in 2029, plus interest at 4 percent to 5.375 percent through 2029	17,685,000	18,105,000

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 6 - Lease Purchase Commitments and Long-term Debt (Continued)

	2007	2006
Lease purchase contract, revenue refunding bonds, Series 2003, with annual payments ranging from \$1,680,000 in 2008 to \$3,550,000 in 2021, plus interest at 6.50 percent through 2021	\$ 35,000,000	\$ 35,000,000
Total	66,130,000	68,325,000
Less unamortized bond discount	1,640,396	1,852,063
Less current portion	2,795,000	2,195,000
Long-term portion	\$ 61,694,604	\$ 64,277,937

The following is a reconciliation of the future principal and interest payment to the recorded liability at June 30, 2007:

Year Ending June 30

2008	\$ 6,385,244
2009	6,383,869
2010	6,361,219
2011	6,353,255
2012	6,334,887
Thereafter	64,815,011
Total	96,633,485
Less amount representing interest	(30,503,455)
Total lease purchase commitments and long-term debt	\$ 66,130,030

The revenue refunding bonds are payable from the revenues of the Medical Center pursuant to lease/purchase agreements between the Medical Center and the City of Flint Building Authority. Under terms of the lease/purchase agreements, the Medical Center transferred title to substantially all of its facilities to the Authority and leases such facilities from the Authority. Ownership of the facilities reverts to the Medical Center upon payment of the bonds. Rental payments to the Authority are equal to the amounts required to make principal and interest payments on the bonds. Approximately half of the proceeds from the 2003 bonds were utilized to refund pre-existing bond debt.

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 6 - Lease Purchase Commitments and Long-term Debt (Continued)

The net revenues of the Medical Center are pledged for payment of principal and interest on the variable rate demand revenue rental and revenue refunding bonds. Accordingly, the financial statements of the Medical Center include the facilities as if owned by the Medical Center and the bonds as if issued by the Medical Center.

The lease purchase agreements contain certain restrictive covenants, including maintaining a certain minimum debt service ratio.

The Medical Center has an interest rate swap agreement with a swap provider. At June 30, 2007, the notional principal amount of the Medical Center's portion of the outstanding interest rate swap agreements was \$35,000,000. The agreement effectively changes the Medical Center's interest rate exposure on \$35,000,000 of fixed percent bonds due July 1, 2008 and July 1, 2020 to a variable rate. The interest rate swap agreement matures on July 1, 2014. Unrealized losses on the swap agreement of \$1,360,492 and \$1,905,149 at June 30, 2007 and 2006, respectively, have not been recorded in accordance with governmental accounting standards.

HHS has an unused irrevocable letter of credit of \$222,000 and \$326,000 as of June 30, 2007 and 2006, respectively, that is collateralized by a certificate of deposit.

Note 7 - Lease Obligations

The Medical Center has capital lease agreements for equipment expiring in 2009 and for software that expire in 2007. The equipment and software have been capitalized and the related obligation recorded using the interest rate implicit in the lease. The assets are being depreciated over their useful lives. Capital assets include the following amounts as of June 30, 2007 and 2006:

	2007	2006
Equipment	\$ 539,606	\$ 539,606
Less accumulated depreciation	(483,271)	(370,600)
Net carrying amount	\$ 56,335	\$ 169,006

The Medical Center also has two sale-leaseback agreements with a bank for equipment expiring in 2008 and 2009. The equipment has been capitalized and the related obligation recorded using the interest rate implicit in the lease. The assets are being depreciated over their useful lives. The sale-leaseback agreements contain restrictive covenants concerning minimum cash flow, minimum total and pledged liquid assets, minimum unrestricted net assets, and maximum liabilities to net asset ratio requirements.

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 7 - Lease Obligations (Continued)

The following is a reconciliation of the future minimum lease payments to the recorded liability at June 30, 2007:

<u>Years Ending June 30</u>	<u>Amount</u>
2008	\$ 1,338,937
2009	<u>75,539</u>
Total future minimum lease payments	1,414,476
Amount representing interest	<u>(33,338)</u>
Total obligation under capital leases	1,381,138
Less current portion	<u>1,305,878</u>
Long-term obligations under capital leases	<u>\$ 75,260</u>

Note 8 - Retirement Plans

The most recent actuarial valuation providing disclosures in accordance with Statement No. 25 and 27 is as of June 30, 2005. Significant details regarding the Medical Center's retirement plans are presented below:

Description of Plans

The Medical Center contributes to the City of Flint Employees Retirement System, which is a single-employer public employee retirement system (PERS). It is the responsibility of the City of Flint PERS to function as an investment and administrative agent for the Medical Center with respect to the pension plans. The City of Flint PERS is administered by a board of trustees. Investments of the City of Flint PERS are made through JP Morgan Chase Trust Department and the Northern Trust Company.

The Medical Center has three plan options covering substantially all employees of the Medical Center. The basic plan option, which is the Old Contributory Pension Plan (OCP), provides for employer contributions, as well as requiring employee contributions based upon a percent of pay. Benefits fully vest after 15 years of service or at 55 with 10 years of service. Under OCP, employees may retire any time after completion of 25 years of credited service or at age 55 with 10 years of credited service. The lifetime monthly retirement benefit under OCP is the participant's final average compensation (which is the average of the highest five out of the last 10 years of credited service) times 2 percent of the first 25 years of credited service and 1 percent for every year thereafter.

Note 8 - Retirement Plans (Continued)

A second plan option is the Modified Contributory Pension Plan (MCP) which provides for employer contributions, as well as requiring employee contributions, based upon a percent of pay, but at rates higher than those required under OCPP. Benefits fully vest after 15 years of service or at age 55 with 10 years of service. Employees may retire any time after completion of 25 years of credited service or at age 55 with 10 years of credited service. The lifetime monthly retirement benefit under MCP is the participant's final average compensation (which is the average of the highest three out of the last five years of credited service) times 2 percent of the first 15 years of credited service, plus 2.2 percent of the next 10 years of credited service, and 1 percent of every year of credited service beyond year 25.

A third plan option is the Hurley Alternative Pension Plan (HAPP) which provides for only an employer contribution and no employee contribution. Benefits fully vest after 10 years of credited service and a normal retirement age of 60. There are provisions for early retirement at age 55 with a reduced benefit (based upon actuarial assumptions to reflect the additional years of benefit payments). The lifetime monthly retirement benefit under HAPP is the participant's final average compensation (which is the average of the highest five out of the last 10 years of credited service) times 1.5 percent for all years of credited service.

Benefit provisions are authorized by contract.

Nonexempt employees (members of bargaining units) may participate in either MCP or HAPP. Exempt employees may participate in only one of any of the three plans (MCP, HAPP, or OCPP).

PERS issues a separate financial report which can be obtained from the pension and payroll department at City Hall - City of Flint, Michigan.

Funding Policy - Employee contributions

	Exempt	Nonexempt
OCPP	3.75% of first \$4,200 of compensation and 5.75% on compensation over \$4,200	Not eligible
MCP	4.5% of first \$4,200 of compensation plus 6.5% of compensation over \$4,200	7% of pay
HAPP	None	None

The Medical Center makes employer contributions in accordance with funding requirements determined by an independent actuary. If a member leaves service, he or she may withdraw his or her employee contributions together with interest.

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 8 - Retirement Plans (Continued)

Actuarial Assumption

The information presented in the required supplementary schedules was determined as a part of the actuarial valuation made at June 30, 2005.

Valuation date	June 30, 2005
Actuarial cost method	Individual Entry Age
Amortization method	Level percent
Remaining amortization period	30 years
Asset valuation method	4-year smoothed market
Actuarial assumption:	
Investment rate of return	8.00%
Projected salary increases	3.95%-7.55%
Includes wages inflation at	3.75%
Cost of living adjustments	None

Annual Pension Cost

Three-year trend information regarding the annual pension cost (APC), percentage of APC contributed, and net pension obligation (NPO) are summarized as follows:

Fiscal Year End	Actuarial Valuation Date	Annual Pension Cost (APC)	% of APC Contributed	Net Pension Obligation at June 30	Annual Required Contribution (ARC) Rate as a % of Covered Payroll
6/30/07	6/30/04	\$9,758,172	56.1%	\$8,729,795	9.49%
6/30/06	6/30/04	\$8,965,839	13.1%	\$7,790,552	8.00%
6/30/05	12/31/02	\$8,967,695	100.0%	\$ -	8.39%

During the fiscal year ended June 30, 2004, seven of nine employee unions plus the exempt employees voted to change participation from the City of Flint PERS to the Michigan Municipal Public Employees Retirement System (MERS). As of June 30, 2007, no transfers of pension funds have been made from the City of Flint PERS to MERS. Contributions of \$8,818,057 and \$1,175,287 were made to the MERS plan by the Medical Center during 2007 and 2006, respectively. The annual contribution rate for MERS payroll used by the Medical Center in 2007 and 2006 was 8.6 percent.

As of June 30, 2007, \$4,448,187 of the net pension obligation represents pension cost from the 2006 year that has not yet been remitted to PERS.

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 9 - Defined Contribution Plan

The Medical Center has a defined contribution plan for employees who meet certain requirements as to date of hire. Contributions to the plan are 4.5 percent of the employee's annual compensation. Each employee's interest is vested as specified in the plan. Pension expense included in the statement of revenues, expenses, and changes in fund net assets was \$691,163 and \$644,566 for the years ended June 30, 2007 and 2006, respectively.

Note 10 - Profit-sharing and 403(b) Retirement Plan

HHS has a qualified 401(k) profit-sharing plan for HPMS employees. Eligible employees, those that have attained the age of 21 and completed 90 days of service, may defer up to 15 percent of their salary. HHS may make a discretionary contribution. HHS's contributions to the 401(k) plan were \$46,588 and \$45,919 for 2007 and 2006, respectively.

HHS also maintains two tax-deferred annuity plans under section 403(b) of the internal Revenue Code. Under the plans, HHS and THC employees may elect to defer up to a specified percentage of their salary, subject to the Internal Revenue Service limits. HHS may make a discretionary contribution. HHS's contributions to the 403(b) plans amounted to \$301,581 and \$335,680 for 2007 and 2006, respectively.

Note 11 - Leases

Hurley Medical Center and Hurley Health Services lease office space under various operating leases. Certain operating leases contain rental escalation clauses that are based on prime rate at a future date and purchase options at fair market value. Total rent expense under these leases for Hurley Medical Center was \$1,711,371 and \$1,644,130 for the years ended June 30, 2007 and 2006, respectively. Total rent expense under these leases for Hurley Health Services was \$900,441 and \$989,969 for the years ended June 30, 2007 and 2006, respectively, including rental payments to Hurley Medical Center of \$451,591 and \$456,528 for the years ended June 30, 2007 and 2006, respectively.

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 11 - Leases (Continued)

The following is a schedule of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year:

Years Ending June 30	Hurley Medical Center	Hurley Health Services
2008	\$ 1,473,673	\$ 824,246
2009	1,304,903	684,533
2010	989,416	618,679
2011	596,385	600,997
2012	173,583	599,430
2013 and after	839,949	1,582,182
Total minimum payments required	<u>\$ 5,377,909</u>	<u>\$ 4,910,067</u>

Note 12 - Contingencies

Malpractice claims have been asserted against the Medical Center by various claimants. The claims are in various stages of assertion, including some that have been brought to trial. Counsel is unable to conclude about the ultimate outcome of the actions; however, it is probable that certain actions will result in unfavorable settlements for the Medical Center. There also are known incidents, which occurred through June 30, 2007, that may result in the assertion of additional claims. Management is of the opinion that the settlement of those claims probable of unfavorable outcome, as well as the settlement, if any, of such other asserted and unasserted claims, are within the amount of liability accrued for unpaid claims, as disclosed in Note 18. Consequently, management believes that such settlements will not significantly affect the Medical Center's financial results. The Medical Center maintains an irrevocable trust to be used for the payment of settlements. The Medical Center funds the trust based upon an annual actuarial determination. The Medical Center purchased a stop-loss insurance policy relating to malpractice claims, which will limit the future claims that will be paid from the irrevocable trust.

There are various legal actions pending against HHS, its subsidiaries, and certain employees. Due to the inconclusive nature of these actions, it is not possible for legal counsel of HHS to determine in the aggregate either the probable outcome of these actions or a reasonable estimate of HHS's ultimate liability, if any. HHS maintains what it believes to be adequate coverage of malpractice, errors and omissions, and directors and officers insurances to cover any possible claims.

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 13 - Commitments

As of June 30, 2007, HPMS is contingently liable as guarantor with respect to 50 percent of \$4,554,485 of indebtedness of Hurley/Binson's Medical Equipment, Inc. Hurley Practice Management Services owns 50 percent of Hurley/Binson's Medical Equipment, Inc. The book value of the investment is \$0 and \$1,140,309 at June 30, 2007 and 2006, respectively. As of June 30, 2007, HPMS had written off the investment in Hurley/Binson's Medical Equipment, Inc. due to continuing operating losses. No material loss is anticipated by reason of such guarantee. There are no recourse rights in the event of default by Hurley/Binson's Medical Equipment, Inc. Hurley/Binson's Medical Equipment, Inc. was not in compliance with loan covenants related to tangible capital funds and debt service payments as of June 30, 2007 and the bank waived the violation of the covenants.

The future minimum payments related to the above debt are: 2008 - \$3,229,824; 2009 - \$209,000; 2010 - \$167,333; 2011 - \$84,000; and 2012 - \$864,328.

Note 14 - Postretirement Healthcare Benefits

Effective for retirements on or after July 1, 1983, Hurley Medical Center provides a portion of health insurance premiums for retired employees. The insurance premium for retired employees ranges from \$155 to \$1,834 per month to age 65 and a Medicare supplement after age 65. Retired exempt employees receive full or partial coverage, depending on date of employment at no cost to the retiree. Retired non-exempt employees pay the full amount or a portion of the premium. No payment is made if the retired employee is covered under other employment. The estimated cost of such benefits is accrued based on a level percent of payroll. Accrued costs charged to expense were \$6,013,411 and \$5,942,485 in the years ended June 30, 2007 and 2006, respectively. The number of participants eligible to receive benefits was 598 and 667 in the years ended June 30, 2007 and 2006, respectively. The Medical Center has set aside assets in a trust account to be used for payment of its portion of health insurance premiums for retired employees.

Note 15 - Other

Prior to 1993, the Medical Center was classified under the jurisdiction of the Financial Accounting Standards Board (FASB) and the financial statements and related disclosures were in compliance with FASB requirements. In January 1993, the Accounting Standards Board issued Statements of Auditing Standard No. 69, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles (GAAP)*. This statement revised the GAAP hierarchy which is the auditor's uniform standard for judging the fairness of the overall presentation of the financial statements. As a result of the issuance of SAS 69, all governmental entities and component units thereof are to be classified under the jurisdiction of the Governmental Accounting Standards Board (GASB).

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 15 - Other (Continued)

The Medical Center's disclosures in Notes 1-14 remain similar to the prior years to maintain the comparability of the Medical Center to the healthcare industry. Notes 16 and 17 are the additional disclosures required by the GASB.

Note 16 - Deposits and Investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The retiree healthcare fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small business, certain state and local government obligations, and certain other specified investment vehicles.

The Medical Center has designated four banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all of the items listed above. The Medical Center's deposits and investment policies are in accordance with statutory authority.

The Medical Center's deposits consist of checking and savings accounts and money market funds. At year end, the carrying amount of the Medical Center's deposits was \$23,207,033 (excluding petty cash of \$11,475), and the bank balance was \$25,727,871. Of the bank balance, \$400,000 was covered by federal depository insurance. The bank balance includes \$20,399,571 of money market funds that are collateralized by securities not in the name of the Medical Center. The rest of the bank balance, or \$4,928,300, was not insured or collateralized.

HHS deposits consist of checking accounts and money market funds. Deposits are recorded on the financial statements as cash and cash equivalents. At year end, the carrying amount of HHS's deposits (excluding petty cash) was \$3,294,820 and the bank balance was \$3,659,510. The bank balance was higher than the carrying value due to outstanding checks that had not yet cleared the bank at June 30, 2007. Of the bank balance, \$129,625 was covered by federal depository insurance.

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 16 - Deposits and Investments (Continued)

The Medical Center's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, Medical Center's deposits may not be returned to it. At year end, the Medical Center had \$4,828,300 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Medical Center believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Medical Center evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Medical Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Medical Center has a deposit policy for custodial credit risk that requires the safekeeping agent to undergo an annual evaluation of creditworthiness by the chief investment officer through the review of its annual financial statements and/or the use of credit rating agencies. The safekeeping agent is a member of the Securities Investor Protection Corporation (SIPC). Securities held in the safekeeping account are insured up to \$500,000 and cash is insured to \$100,000 through this program.

At year end, the balance of investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Medical Center's name as follows:

Type of investment	Carrying Value		How Held
	2007	2006	
U. S. government or agency bonds	\$14,985,737	\$15,704,180	Counterparty trust dept
U. S. government or agency bonds	11,876,750	11,693,700	Counterparty
Commercial paper	1,918,926	1,129,822	Counterparty trust dept
Commercial paper	7,994,300	-	Counterparty
Repurchase agreement	7,068,925	18,090,132	Counterparty

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 16 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Medical Center's investment policy indicates that no investment shall have, at the time of purchase, an average life of more than five years. Investments other than mortgage-backed securities may not have a maturity of more than 10 years. At year end, the average maturities of investments are as follows:

Investment	Fair Value		Weighted Average Maturity
	2007	2006	
U. S. government or agency bonds	\$26,921,967	\$27,470,311	3.5 years
U. S. government CMOs	21,575,748	24,535,546	less than one year
Commercial paper	9,913,226	1,129,822	less than one year
Repurchase agreement	7,068,925	18,090,137	less than one year

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The County has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U. S. government) are as follows:

Investment	Fair Value		Rating	Rating Organization
	2007	2006		
U. S. government or agency bonds	\$20,730,073	\$20,884,986	AAA	Standards & Poors
U. S. government CMOs	21,575,748	24,535,546		Not rated
Commercial paper	9,913,226	1,129,822	AI+	Standards & Poors
Repurchase agreement	7,068,925	18,090,137		Not rated

Concentration of Credit Risk

The Medical Center's investment policy limits any single investment to 10 percent of the portfolio, with the exception of cash or U.S. Treasuries, and further restricts that combined mortgage-backed securities may not exceed 50 percent of the portfolio. No single investment exceeded 5 percent of the investment portfolio at June 30, 2007 and 2006.

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 17 - Long-term Debt

Changes in the Medical Center's long-term debt (which is detailed in Note 6) and lease obligations (which are detailed in Note 7) for the year ended June 30, 2007 are as follows:

	2006	Current Year Additions	Current Year Reductions	2007	Amounts Due Within One Year
Series 1995A	\$ 1,130,000	\$ -	\$ (1,130,000)	\$ -	\$ -
Series 1998A	14,090,000	-	(645,000)	13,445,000	675,000
Series 1998B	18,105,000	-	(420,000)	17,685,000	440,000
Series 2003	35,000,000	-	-	35,000,000	1,680,000
Unamortized bond discount	<u>(1,852,063)</u>	<u>211,667</u>	<u>-</u>	<u>(1,640,396)</u>	<u>-</u>
Total long-term debt	66,472,937	211,667	(2,195,000)	64,489,604	2,795,000
Capital lease obligations	<u>2,982,546</u>	<u>-</u>	<u>(1,601,408)</u>	<u>1,381,138</u>	<u>1,305,878</u>
Total noncurrent liabilities	<u>\$ 69,455,483</u>	<u>\$ 211,667</u>	<u>\$ (3,796,408)</u>	<u>\$ 65,870,742</u>	<u>\$ 4,100,878</u>

Changes for the year ended June 30, 2006 were as follows:

	2005	Current Year Additions	Current Year Reductions	2006	Amounts Due Within One Year
Series 1995A	\$ 2,200,000	\$ -	\$ (1,070,000)	\$ 1,130,000	\$ 1,130,000
Series 1998A	14,705,000	-	(615,000)	14,090,000	645,000
Series 1998B	18,510,000	-	(405,000)	18,105,000	420,000
Series 2003	35,000,000	-	-	35,000,000	-
Unamortized bond discount	<u>(2,066,327)</u>	<u>214,264</u>	<u>-</u>	<u>(1,852,063)</u>	<u>-</u>
Total long-term debt	68,348,673	214,264	(2,090,000)	66,472,937	2,195,000
Capital lease obligations	<u>4,519,804</u>	<u>-</u>	<u>(1,537,258)</u>	<u>2,982,546</u>	<u>1,602,912</u>
Total noncurrent liabilities	<u>\$ 72,868,477</u>	<u>\$ 214,264</u>	<u>\$ (3,627,258)</u>	<u>\$ 69,455,483</u>	<u>\$ 3,797,912</u>

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 18 - Risk Management

The Medical Center is exposed to various risks of loss, including hospital professional and patient general liability claims. The Medical Center has established a trust to assist in accumulating resources to fund excess insurance premiums and to pay claims.

The Medical Center's self-insured retention is \$6 million for the first annual occurrence and \$4 million for each additional occurrence annually with excess claims-made coverage up to \$15 million annually. Claims in excess of \$15 million are to be covered by the Medical Center. The Medical Center employs the use of an actuary to provide an analysis of the existing claims and to estimate the liability for incurred but not reported (IBNR) claims.

Changes in the aggregate liabilities for claims and defense costs payable for the past two years were as follows:

	2007	2006
Estimated liability - Beginning of year	\$ 32,996,608	\$ 25,242,445
Increase in claims liability	7,674,016	13,806,555
Defense costs and other fund expenses	(1,427,357)	(1,461,412)
Excess insurance premium payments	(1,652,300)	(1,652,230)
Claims paid	(2,568,757)	(2,938,750)
Estimated liability - End of year	<u>\$ 35,022,210</u>	<u>\$ 32,996,608</u>

The carrying amount of the insurance trust assets (at market) amounted to \$15,247,738 and \$12,295,712 at June 30, 2007 and 2006, respectively.

Note 19 - Joint Ventures

Hurley Medical Center participates in six privately held joint ventures: Greater Flint Area Hospital Imaging Center, Inc. (GFAHIC), Flint Health Systems Imaging Center, Inc. (FHSIC), HGH, Inc. (HealthPlus Partners), Hurley PHO of Mid-Michigan, Michigan Lithotripsy Network, and Genesys Hurley Cancer Institute. Each corporate joint venture is recorded in the financial statements in accordance with Accounting Principles Board Statement 18 on the equity method of accounting.

GFAHIC and FHSIC provide magnetic resonance imaging (MRI) services to the greater Flint and Genesee County community. The ownership of both corporations is allocated between Hurley Medical Center, Genesys Regional Medical Center, and McLaren Regional Medical Center. The joint venture provides that each participant shares in the annual earnings or losses of the corporations. The net investment by the Medical Center at June 30, 2007 and 2006 was \$3,618,462 and \$3,471,309, respectively. A total of \$900,000 and \$1,600,000 was distributed to the Medical Center during the years ended June 30, 2007 and 2006, respectively.

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 19 - Joint Ventures (Continued)

HGH, Inc., is a joint venture among Hurley Medical Center, HealthPlus of Michigan, Inc., Genesys Regional Medical Center, and Memorial Health Care Center. The venture was established during 1995 to provide a methodology to enroll Medicaid patients in the statewide managed care initiative for Medicaid. The arrangement provides that the three entities will share in the income or losses of the joint venture. The Medical Center has a negative net investment (obligation) of \$(258,060) at June 30, 2006. During 2007, the Medical Center contributed capital of \$2,475,434 to pay outstanding claims. The net investment by the Medical Center was zero at June 30, 2007. This joint venture was dissolved as of December 31, 2005.

Hurley PHO of Mid-Michigan is a joint venture between Hurley Medical Center and its medical staff. The venture was established during 1997 to provide vertically integrated continuous care which will facilitate the Medical Center participating in managed care contracts in the future. The Medical Center's net investment at June 30, 2007 and 2006 was \$639,669 and \$493,156, respectively. The arrangement provides that the Medical Center will be allocated 50 percent of the income or losses of the joint venture.

Michigan Lithotripsy Network is a joint venture between Hurley Medical Center and six other hospitals. The venture was established during 1999 to provide a mobile lithotripsy unit to be utilized by the participating hospitals. The arrangement provides that the seven hospitals will share equally in the income or losses of the joint venture. Michigan Lithotripsy Network was sold in 2006 for \$500,000, resulting in a net gain to the Medical Center of \$468,939.

Genesys Hurley Cancer Institute is a joint venture between Hurley Medical Center and Genesys Regional Medical Center. The venture was established during 2001 to provide outpatient oncology services, including laboratory, and radiation oncology. The Medical Center's net investment at June 30, 2007 and 2006 was \$3,735,305 and \$2,590,223, respectively. The arrangement provides that the two entities will share equally in the income or losses of the joint venture.

HPMS has a 50 percent ownership in Hurley/Binson's Medical Equipment, Inc. The Medical Center's net investment at June 30, 2007 and 2006 was \$0 and \$1,140,308, respectively. Investment loss recognized in the years ended June 30, 2007 and 2006 using the equity method was \$1,140,308 and \$316,169, respectively.

Note 20 - Related Party Transactions

The Medical Center provides services to one of its joint ventures, HGH, Inc. As of June 30, 2007 and 2006, the net settlement receivable from HGH, Inc. was \$1,831,221 and \$3,390,139, respectively, and is included in patient accounts receivable on the balance sheet. The net patient revenue recorded from HGH, Inc. was \$18,591,603 and \$14,402,873 for the years ended June 30, 2007 and 2006, respectively.

The Medical Center pays subsidies and management fees for services rendered to HHS.

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 20 - Related Party Transactions (Continued)

Management fees and contributions from the Medical Center to HHS for the years ended June 30, 2007 and 2006 amounted to \$17,625,222 and \$16,565,607, respectively, of which \$15,326,105 and \$13,268,126, respectively, is staff and service contracts and \$2,299,117 and \$3,297,481, respectively, is network management fees. Amounts paid by HHS and the Medical Center for rent and other miscellaneous expenses for the years ended June 30, 2007 and 2006 amounted to \$858,604 and \$820,228, respectively.

As of June 30, 2007 and 2006, the Medical Center had accounts receivable from HHS of \$36,990 and \$58,529, respectively, and accounts payable to HHS of \$388,297 and \$561,301, respectively.

Included in other operating revenues of HHS are management fees and marketing fees for services rendered paid by Hurley/Binson's Medical Equipment, Inc., a related party to HPMS. Management fee and marketing income from Hurley/Binson's Medical Equipment, Inc. for the years ended June 30, 2007 and 2006 amounted to \$84,000. There were accounts receivable of \$0 and \$105,000 from Hurley/Binson's Medical Equipment at June 30, 2007 and 2006, respectively. HPMS and HHS purchase courier services from Hurley/Binson's Medical Equipment, Inc. in the amount of \$240,000 annually.

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 21 - Capital Assets

Cost of capital assets and related accumulated depreciation and depreciable lives for Hurley Medical Center for June 30, 2007 are summarized below:

	2006	Additions	Disposals and Transfers	2007
Land	\$ 3,816,016	\$ 73,847	\$ -	\$ 3,889,863
Land improvements	4,096,445	160,805	-	4,257,250
Buildings:				
Medical Center building	107,711,086	4,936,149	(282,737)	112,364,498
Parking structure	3,247,819	7,990	-	3,255,809
Nurses' residence	1,725,380	-	-	1,725,380
Interns' apartment	303,482	-	-	303,482
Prospect street apartments	1,253,073	-	-	1,253,073
Power plant	3,452,021	21,450	-	3,473,471
Rental property	350,497	-	-	350,497
Health and fitness center	4,565,319	-	-	4,565,319
Park Plaza	1,258,501	-	-	1,258,501
Physicians' office building	336,566	-	-	336,566
Northpointe Clinic	1,782,868	-	-	1,782,868
Davison Clinic	1,905,257	40,154	-	1,945,411
Longway Eastside Campus building	4,155,269	40,275	(700,656)	3,494,888
Machinery and equipment	91,214,512	6,074,923	(6,325,995)	90,963,440
Automotive equipment	257,864	-	(8,326)	249,538
Construction in progress	2,961,855	10,963,630	(11,355,593)	2,569,892
Total	234,393,830	22,319,223	(18,673,307)	238,039,746
Less accumulated depreciation:				
Land improvements	3,739,671	148,440	-	3,888,111
Buildings:				
Medical Center building	88,057,645	3,086,958	(270,947)	90,873,656
Parking structure	2,298,221	73,784	-	2,372,005
Nurses' residence	1,402,495	38,358	-	1,440,853
Interns' apartment	283,040	3,968	-	287,008
Prospect street apartments	1,187,746	22,885	-	1,210,631
Power plant	1,918,217	148,771	-	2,066,988
Rental property	342,516	2,580	-	345,096
Health and fitness center	3,655,831	201,912	-	3,857,743
Park Plaza	1,012,767	25,867	-	1,038,634
Physicians' office building	250,074	14,352	-	264,426
Northpointe Clinic	512,069	51,118	-	563,187
Davison Clinic	489,961	58,622	-	548,583
Longway Eastside Campus building	808,745	152,558	(160,538)	800,765
Machinery and equipment	67,475,390	7,036,865	(6,163,479)	68,348,776
Automotive equipment	197,371	12,209	(7,493)	202,087
Total	173,631,759	11,079,247	(6,602,457)	178,108,549
Net carrying amount	\$ 60,762,071	\$ 11,239,976	\$ (12,070,850)	\$ 59,931,197

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 21 - Capital Assets (Continued)

Cost of capital assets and related accumulated depreciation and depreciable lives for Hurley Medical Center for June 30, 2006 are summarized below:

	2005	Additions	Disposals and Transfers	2006
Land	\$ 3,695,472	\$ 120,544	\$ -	\$ 3,816,016
Land improvements	3,880,819	217,687	(2,061)	4,096,445
Buildings:				
Medical Center building	106,373,518	1,721,003	(383,435)	107,711,086
Parking structure	2,531,728	716,091	-	3,247,819
Nurses' residence	1,725,380	-	-	1,725,380
Interns' apartment	303,482	-	-	303,482
Prospect street apartments	1,253,073	-	-	1,253,073
Power plant	2,350,495	1,162,496	(60,970)	3,452,021
Rental property	350,497	-	-	350,497
Health and fitness center	4,565,319	-	-	4,565,319
Park Plaza	1,258,501	-	-	1,258,501
Physicians' office building	336,566	-	-	336,566
Northpointe Clinic	1,778,012	4,856	-	1,782,868
Davison Clinic	1,901,857	3,400	-	1,905,257
Longway Eastside Campus				
Building	4,091,057	64,212	-	4,155,269
Machinery and equipment	97,132,489	9,204,999	(15,122,976)	91,214,512
Automotive equipment	296,397	32,770	(71,303)	257,864
Construction in progress	3,285,831	12,803,535	(13,127,511)	2,961,855
Total	237,110,493	26,051,593	(28,768,256)	234,393,830
Less accumulated depreciation:				
Land improvements	3,573,127	168,605	(2,061)	3,739,671
Buildings:				
Medical Center building	85,304,935	3,071,494	(318,784)	88,057,645
Parking structure	2,250,112	48,109	-	2,298,221
Nurses' residence	1,364,137	38,358	-	1,402,495
Interns' apartment	279,003	4,037	-	283,040
Prospect street apartments	1,164,255	23,491	-	1,187,746
Power plant	1,816,603	145,065	(43,451)	1,918,217
Rental property	339,256	3,260	-	342,516
Health and fitness center	3,450,875	204,956	-	3,655,831
Park Plaza	968,726	44,041	-	1,012,767
Physicians' office building	234,811	15,263	-	250,074
Northpointe Clinic	460,613	51,456	-	512,069
Davison Clinic	434,025	55,936	-	489,961
Longway Eastside Campus				
Building	660,930	147,815	-	808,745
Machinery and equipment	75,299,393	6,311,193	(14,135,196)	67,475,390
Automotive equipment	237,707	14,308	(54,644)	197,371
Total	177,838,508	10,347,387	(14,554,136)	173,631,759
Net carrying amount	\$ 59,271,985	\$ 15,704,206	\$ (14,214,120)	\$ 60,762,071

Hurley Medical Center

Notes to Financial Statements June 30, 2007 and 2006

Note 21 - Capital Assets (Continued)

Capital asset activity for the Hurley Health Services for June 30, 2007 was as follows:

	2006	Additions	Disposals and Transfers	2007
Leasehold improvements	\$ 1,212,009	\$ -	\$ (239,198)	\$ 972,811
Equipment and furnishings	2,054,259	4,988	(470,491)	1,588,756
Total	3,266,268	4,988	(709,689)	2,561,567
Less accumulated depreciation:				
Leasehold improvements	347,357	34,208	(83,503)	298,062
Equipment and furnishings	1,570,080	84,678	(368,752)	1,286,006
Total	1,917,437	118,886	(452,255)	1,584,068
Net carrying amount	\$ 1,348,831	\$ (113,898)	\$ (257,434)	\$ 977,499

Capital asset activity for Hurley Health Services for June 30, 2006 was as follows:

	2005	Additions	Disposals and Transfers	2006
Leasehold improvements	\$ 1,286,015	\$ 22,639	\$ (96,645)	\$ 1,212,009
Equipment and furnishings	2,075,730	55,813	(77,284)	2,054,259
Total	3,361,745	78,452	(173,929)	3,266,268
Less accumulated depreciation:				
Leasehold improvements	308,198	66,544	(27,385)	347,357
Equipment and furnishings	1,496,515	144,557	(70,992)	1,570,080
Total	1,804,713	211,101	(98,377)	1,917,437
Net carrying amount	\$ 1,557,032	\$ (132,649)	\$ (75,552)	\$ 1,348,831

Note 22 - Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for governments in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ended June 30, 2008.

Required Supplemental Information

Hurley Medical Center

Hurley Medical Center Division City of Flint Employees Retirement System Required Supplemental Information Analysis of Funding Progress

Plan Year End	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Attained Age (AAL)(b)	(Unfunded) Over Funded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) as % of Payroll (b-a)(c)
6/30/98	12/31/96	\$ 257,531,709	\$ 242,476,930	\$ 15,054,779	106.2	\$ 83,112,658	-
6/30/99	12/31/97	301,060,938	259,985,429	41,075,509	115.8	87,651,874	-
6/30/00	12/31/98	322,497,186	281,563,941	40,933,245	114.5	96,417,303	-
6/30/01	12/31/99	340,608,779	306,134,487	34,474,292	111.3	107,246,608	-
6/30/02	12/31/00	354,306,658	328,489,881	25,816,777	107.9	105,102,019	-
6/30/03	12/31/01	367,058,240	333,802,804	33,255,436	110.0	103,411,340	-
6/30/04	12/31/02	357,836,531	399,476,922	(41,640,391)	89.6	103,802,756	40.1
6/30/05	12/31/02	357,836,531	399,476,922	(41,640,391)	89.6	103,802,756	40.1
6/30/06	6/30/04	338,311,878	430,746,829	(92,434,951)	78.5	110,096,227	84.0
6/30/07	6/30/05	341,965,387	431,927,509	(89,962,122)	79.2	108,969,869	82.6

Additional Information

To the Board of Hospital Managers
Hurley Medical Center

We have audited the financial statements of the business-type activities of Hurley Medical Center (a component unit of the City of Flint, Michigan) as of and for the years ending June 30, 2007 and 2006. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying additional information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The consolidating schedules have been subjected to the tests and other auditing procedures applied in the audits of the financial statements mentioned above and, in our opinion, are fairly stated in all respects material in relation to the financial statements taken as a whole, except said presentation includes certain departures from accounting principles under the Governmental Accounting Standards Board statements, as described below, but is intended to be a presentation comparable to hospital industry practices for not-for-profit healthcare providers. The primary changes are in the presentation of financial statements on a consolidated basis for the Medical Center and its component unit, reflecting the equity investment in the component unit as an asset of the Medical Center, reflecting the provision for uncollectible accounts as an operating expense rather than as a reduction in net patient service revenues, and reflecting interest expense as an operating expense in the consolidating statement of revenues, expenses, and changes in fund net assets.

Plante & Moran, PLLC

October 17, 2007

Hurley Medical Center

Consolidating Balance Sheet June 30, 2007

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2007 Consolidated Totals	2006
Assets					
Current Assets					
Cash and cash equivalents	\$ 9,490,130	\$ 3,295,650	\$ -	\$ 12,785,780	\$ 22,665,908
Patient accounts receivable, net	56,953,927	210,460	-	57,164,387	59,291,513
Other receivables	7,935,332	437,858	(425,287)	7,947,903	7,824,548
Assets limited as to use	3,931,428	229,724	-	4,161,152	3,844,572
Prepaid expenses and other	2,254,768	1,051,899	-	3,306,667	3,637,584
Inventory	3,634,956	19,831	-	3,654,787	3,343,833
Total current assets	84,200,541	5,245,422	(425,287)	89,020,676	100,607,958
Assets Limited as to Use					
By the board	75,178,893	229,724	-	75,408,617	60,088,389
Under bond indenture agreement - Held by trustee	11,773,195	-	-	11,773,195	12,457,972
Restricted	397,731	-	-	397,731	390,113
Total assets limited as to use	87,349,819	229,724	-	87,579,543	72,936,474
Less assets limited as to use that are required for current liabilities	(3,931,428)	(229,724)	-	(4,161,152)	(3,844,572)
Total noncurrent assets whose use is limited	83,418,391	-	-	83,418,391	69,091,902
Capital Assets - Net	59,931,197	977,499	-	60,908,696	62,110,902
Other Assets					
Investment in joint ventures	7,993,436	4,500	-	7,997,936	7,450,437
Investment in Hurley Health Services	5,128,781	-	(5,128,781)	-	-
Deferred reimbursement and defeasance loss	786,708	-	-	786,708	894,053
Bond issuance costs, net	563,882	-	-	563,882	630,927
Other	-	150,000	-	150,000	150,000
Total assets	<u>\$ 242,022,936</u>	<u>\$ 6,377,421</u>	<u>\$(5,554,068)</u>	<u>\$ 242,846,289</u>	<u>\$ 240,936,179</u>

Additional schedules are not GAAP basis under GASB, but are for comparative purposes to hospital industry practices for not-for-profit healthcare providers.

Hurley Medical Center

Consolidating Balance Sheet (Continued) June 30, 2007

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2007 Consolidated Totals	2006
Liabilities and Fund Net Assets					
Current Liabilities					
Current portion of long-term debt and lease obligations	\$ 4,100,878	\$ -	\$ -	\$ 4,100,878	\$ 3,797,912
Accounts payable and taxes withheld	15,049,630	113,884	(425,287)	14,738,227	15,017,133
Accrued expenses	33,796,020	1,134,756	-	34,930,776	33,839,335
Total current liabilities	52,946,528	1,248,640	(425,287)	53,769,881	52,654,380
Lease Obligations - Net of current portion	75,260	-	-	75,260	1,379,634
Long-term Debt - Net of current portion	61,694,604	-	-	61,694,604	64,277,937
Accrued Expenses	47,371,405	-	-	47,371,405	40,952,281
Total liabilities	162,087,797	1,248,640	(425,287)	162,911,150	159,264,232
Fund Net Assets					
Invested in capital assets - Net of related debt	9,920,059	977,499	(977,499)	9,920,059	6,954,524
Donor restricted for specific operating activities	3,985,169	-	-	3,985,169	3,523,037
Unrestricted	66,029,911	4,151,282	(4,151,282)	66,029,911	71,194,386
Total liabilities and fund net assets	<u>\$ 242,022,936</u>	<u>\$ 6,377,421</u>	<u>\$(5,554,068)</u>	<u>\$ 242,846,289</u>	<u>\$ 240,936,179</u>

Additional schedules are not GAAP basis under GASB, but are for comparative purposes to hospital industry practices for not-for-profit healthcare providers.

Hurley Medical Center

Consolidating Statement of Revenues, Expenses, and Changes in Fund Net Assets Year Ended June 30, 2007

	Hurley Medical Center	Hurley Health Services	Eliminating Entries	2007 Consolidated Totals	2006
Operating Revenues					
Net patient service revenue	\$ 316,773,759	\$ 2,862,052	\$ -	\$ 319,635,811	\$ 298,662,939
Other operating revenues	27,486,577	18,893,352	(18,483,826)	27,896,103	28,263,186
Total operating revenues	344,260,336	21,755,404	(18,483,826)	347,531,914	326,926,125
Operating Expenses					
Salaries and wages	132,005,181	14,373,202	-	146,378,383	140,526,566
Employee benefits and payroll taxes	51,198,608	2,709,575	-	53,908,183	52,908,518
Operating supplies and expenses	39,012,934	-	-	39,012,934	37,738,735
Professional services and consultant fees	35,114,023	132,848	(15,326,105)	19,920,766	19,115,641
Purchased services and other	43,918,492	4,851,770	(858,604)	47,911,658	52,582,023
Depreciation and amortization	11,079,243	118,877	-	11,198,120	10,571,377
Interest expense	4,491,718	-	-	4,491,718	4,503,057
Provision for uncollectible accounts	30,470,988	-	-	30,470,988	25,783,919
Total operating expenses	347,291,187	22,186,272	(16,184,709)	353,292,750	343,729,836
Net Operating Loss	(3,030,851)	(430,868)	(2,299,117)	(5,760,836)	(16,803,711)
Nonoperating Revenues (Expenses)					
Investment income and unrestricted donations	4,188,467	179,394	-	4,367,861	179,948
Management fees to HHS and joint venture income (expense)	(2,124,199)	(1,140,308)	2,299,117	(965,390)	2,734,278
Total nonoperating revenues (expenses)	2,064,268	(960,914)	2,299,117	3,402,471	2,914,226
Excess of Expenses Over Revenue Before Other Activity and Restricted Fund Activity and Transfer of Funds	(966,583)	(1,391,782)	-	(2,358,365)	(13,889,485)
Other					
Decrease in investment in Hurley Health Services	(1,391,782)	-	1,391,782	-	-
Assets released from restrictions for the purchase of capital assets	159,430	-	-	159,430	229,996
Excess (Deficiency) of Revenues Over Expenses Before Restricted Fund Activity and Transfer of Funds	(2,198,935)	(1,391,782)	1,391,782	(2,198,935)	(13,659,489)
Capital Contributed Restricted Fund Activity and Transfer of Funds					
Restricted gifts and bequests	1,817,866	-	-	1,817,866	1,798,029
Income and investments	16,189	-	-	16,189	81,684
Transfer of funds to General Fund - Capital asset additions	(159,430)	-	-	(159,430)	(229,996)
Transfer of funds to General Fund - Other operating expenses	(1,212,498)	-	-	(1,212,498)	(1,256,340)
Increase (Decrease) in Fund Net Assets	(1,736,808)	(1,391,782)	1,391,782	(1,736,808)	(13,266,112)
Fund Net Assets - Beginning of year	81,671,947	6,520,563	(6,520,563)	81,671,947	94,938,059
Fund Net Assets - End of year	\$ 79,935,139	\$ 5,128,781	\$ (5,128,781)	\$ 79,935,139	\$ 81,671,947

Additional schedules are not GAAP basis under GASB, but are for comparative purposes to hospital industry practices for not-for-profit healthcare providers.



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October 17, 2007

To the Board of Hospital
Managers and Management
Hurley Medical Center
Flint, Michigan

Dear Board of Hospital Managers and Management:

In planning and performing our audit of the financial statements of Hurley Medical Center (the "Medical Center") as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Medical Center's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

Observations, Comments, and Recommendations

During the audit, we also observed other matters that, while not considered significant deficiencies, we feel should be communicated to you. We have also summarized some additional areas for board consideration. Beside each comment is the audit year the comment was first issued. Comments issued in previous years contain information updating the status of the comment through the current year, if necessary.

We have already discussed many of these comments and suggestions with the various personnel of the Medical Center, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Interim Contractual Allowance Calculation (June 30, 2006)

Monthly contractual computations are arguably the most important step to insure monthly financial statements are accurate and represent the true results of operations of the Medical Center. In prior years, the contractual allowance system computed the monthly contractual allowances on a global basis determined by such factors as volumes and budgeted amounts. In addition, the balance sheet accounts related to the contractual allowances were only reviewed and adjusted at year end. During 2007, management implemented monthly contractual allowance provision computations on a more detailed, by payor, level. Also as part of the post year-end closing process, third-party receivable retention accounts (i.e., allowances) were reclassified to separate current and prior year activity on the general ledger. However, we noted settlements due from third-party payors are still recorded in the same accounts as the accounts receivable allowances, which can complicate the reconciliation process.

At June 30, 2006, the Medical Center had a substantial amount of monies due it by various third-party payors, including, but not limited to, Medicare, Medicaid, and Health Plus. During fiscal year 2007, significant progress was made in final settling outstanding years and collecting outstanding amounts owed to the Medical Center, including receiving administrative resolutions for appeals of Medicare settlements dating back to 1995 through 2000.

Based on our observations, we recommend that management continue to implement the following recommendations made in the prior year:

- Review the monthly process for posting third-party transactions to the general ledger and make the necessary adjustments to ensure that the proper accounts are utilized on a monthly basis
- Segregate settlements related to prior years into unique general ledger accounts by payor
- Implement the new account structure to segregate the prior year settlements
- Continue to utilize the payor-specific model on a monthly basis for contractual provisions
- On at least a quarterly basis, review the balance sheet amounts related to accounts receivable allowances to determine the reasonableness of the accounts based on open accounts receivable
- Continue to monitor all open third-party settlements and contact the appropriate third-party payor regarding the status of the settlements
- On at least a quarterly basis, compute estimated third-party settlements for the current year for payors on an interim payment system. If the computation indicates significant amounts due the Medical Center, the third-party payor should be contacted regarding an adjustment in the rates.

Impact of New GASB Regarding Retiree Healthcare Liabilities (June 30, 2005)

The Governmental Accounting Standards Board issued a new pronouncement, GASB Statement No. 45, *Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions*, that will require governmental entities to reflect the estimated liability for retiree healthcare costs (that is not funded through a pension trust) on the balance sheet of the governmental unit. The liability is required to be actuarially calculated and to cover the estimated cost of the benefit over a period approximating the employees' years of service. Currently, the Medical Center pays for a portion or all of retiree healthcare premiums for various retiree groups. The pronouncement is effective for the Medical Center for the 2008 fiscal year.

June 30, 2007 status:

Management has engaged Gabriel Roeder Smith to analyze the GASB 43 and GASB 45 impact and had received estimates of its funding requirements. The Medical Center is working with the actuary to be in compliance for fiscal year end 2008.

Pension Plan Funding (June 30, 2006)

The estimated amount of the employer portion of the pension plan contribution has been recorded for fiscal year 2006 and after as an expense on the books of the Medical Center; however, the actual funds have not yet been transferred to either the Flint Employee Retirement System (FERS) or the Michigan Municipal Employee Retirement System (MERS). Management is working with FERS and MERS to resolve the discrepancy relating to the transfer of previously accumulated plan assets for the Medical Center's employee groups that have been approved to transfer from the FERS to the MERS plan. In the interim, however, the amount of cash owed by the Medical Center to the pension plans continues to increase. It is therefore recommended that the matter of how to fund each pension plan be resolved as quickly as possible.

Additionally, to determine the amount of employer pension expense recorded for the employees in the MERS plan, management is using a rate that was estimated by the actuary more than a year ago. The rate being used may differ from what will be required to be remitted to MERS to fund the employer portion of the plan. In order to have a more accurate estimate of the pension expense, management should work with MERS and the actuary to determine the actual contribution rate that will be required under the MERS plan.

June 30, 2007 status:

Transfers have been made to fund the employer portion of MERS. Additionally, the rate being used to fund MERS is the appropriate rate required by MERS. The employer portion due to FERS has not been funded for fiscal years 2006 or 2007. Management is working with the City of Flint to have the assets for those retirees who voted to transfer to MERS transferred from FERS to MERS. Until FERS makes this transfer, management has no plans to transfer any further funds to FERS. Subsequent to year end, a board-designated investment account is being established to hold the funds that the Medical Center owes to FERS.

Reimbursement Manager Job Duties (June 30, 2006)

The reimbursement manager of the Medical Center has duties outside of those duties normally assumed by a hospital reimbursement manager. In addition to the reimbursement accounting duties, the reimbursement manager of the Medical Center also is responsible for other finance areas such as review of the bank reconciliations and investment and debt accounting. We recommend that, due to the time and complexity involved in the reimbursement area, another finance staff member assume additional duties currently being performed by the reimbursement manager, leaving the reimbursement manager free to concentrate on the reimbursement duties.

June 30, 2007 status:

Some of the additional accounting duties, such as review of bank reconciliations has been transferred from the reimbursement manager to another member of the reimbursement staff. However, the reimbursement manager still has the responsibility of reviewing the bank reconciliations. The reimbursement manager still retains the responsibility of the bank reconciliations and the accounting duties of some investment accounting and debt accounting. Every effort should be made to relieve the reimbursement manager of these remaining accounting duties such that his entire focus can be applied to matters related to reimbursement issues.

Capitalization Policy (June 30, 2007)

The current capitalization policy for capital assets of the Medical Center is to capitalize all equipment with a cost greater than \$500, software costing more than \$1,000, and construction costs greater than \$2,000. Management may wish to look at updating this policy as these capitalization thresholds are rather low in comparison to the industry. Medicare allows a capitalization threshold of \$5,000.

Monthly Review of Allowance for Bad Debt (June 30, 2007)

The Medical Center records the allowance for bad debt as a standard monthly entry based on a budgeted percentage of monthly revenues. Management does not formally evaluate on a regular basis the allowance to ensure the amount recorded is reasonable based on anticipated collections and write-offs to date. As an account that is significant and subject to estimation and unpredictability, the allowance for doubtful accounts should be reviewed monthly to ensure that the amount recorded on the balance sheet is reasonable in comparison to the actual activity occurring in accounts receivable. Management could also perform a retrospective look back as a measurement to determine if methodologies utilized to estimate the allowance remain reasonable.

Review of Nonrecurring Journal Entries (June 30, 2007)

We noted during the course of the audit that journal entries can be initiated by multiple members of the accounting staff and that there is no formal procedure in place to review the journal entries posted. Many journal entries are standard monthly entries that recur from month to month, which may not require a review by a supervisor. However, there are also many non-recurring journal entries that are recorded. Although there are other mitigating controls in place, we recommend that supervisor approval be required for significant entries in order to strengthen the internal control process of posting journal entries.

Retiree Health Insurance Trust (June 30, 2007) - In Process

Under GASB rules, a governmental entity which sets up a trust which it funds for a specific employee benefit purpose and cannot use those funds for any other purpose, can no longer consider those assets its own and should not record those assets on its books. After we reviewed the trust document, it appears that the Medical Center's retiree health insurance trust fits this definition and, therefore, the Medical Center has incorrectly recorded the assets of this trust in the basic financial statements.

It has further been determined that these assets are being held in trust by a third party (the bank). Therefore, the activity related to the retiree health insurance trust should be omitted from the Medical Center's financial statements altogether.

The effect on the main governmental statements of the Medical Center for the year ending June 30, 2007 of removing the retiree health insurance trust activity would be a decrease of approximately \$10.7 million of assets, a decrease of \$9.8 million of related health insurance liabilities, and a decrease in investment income of \$900,000. It has been determined that this is insignificant to the basic financial statements of the Medical Center taken as a whole and an adjustment has not been recorded as of June 30, 2007.

This communication is intended solely for the information and use of the board of hospital managers, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC



Robert J. Dery, CPA



Sarah Springer, CPA